

Direct Testimony and Exhibits  
Brian Iverson

Before the Public Service Commission  
of the State of Wyoming

Joint Application of  
Cheyenne Light, Fuel and Power Company  
and Black Hills Power, Inc.  
For a Certificate of Public Convenience  
and Necessity for a Gas Fired  
Electric Generating Power Plant and  
Related Facilities

Docket No. 20003-\_\_-EA-11

Docket No. 20002-\_\_-EA-11

Record No. \_\_\_\_

November 1, 2011



## **Table of Contents**

I.	Introduction and Qualifications .....	1
II.	Manner by Which the Proposed Construction will be Financed .....	2
III.	State the Financial Condition of the Applicants .....	3
IV.	Financing the Project .....	5

## **Exhibits**

Exhibit BGI - 1	Portions of Cheyenne Light 2010 Annual FERC Form 1
Exhibit BGI - 2	Portions of Black Hills Power 2010 Annual FERC Form 1

1                                   **I.       INTRODUCTION AND QUALIFICATIONS**

2   **Q.   WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

3   A.   My name is Brian G. Iverson. My business address is 625 9th Street, Rapid City, South  
4       Dakota 57709.

5   **Q.   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6   A.   I am currently employed by Black Hills Corporation ("Black Hills Corporation"), as Vice  
7       President and Treasurer.

8   **Q.   ON WHOSE BEHALF ARE YOU APPEARING IN THIS APPLICATION?**

9   A.   I am appearing on behalf of Cheyenne Light, Fuel & Power Company ("Cheyenne Light")  
10       and Black Hills Power, Inc. ("Black Hills Power").

11   **Q.   PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES IN YOUR**  
12       **CURRENT POSITION.**

13   A.   In my role, I am responsible for the financing activities of Black Hills Corporation and its  
14       subsidiaries and affiliates. Cheyenne Light and Black Hills Power are wholly owned  
15       subsidiaries of Black Hills Corporation.

16   **Q.   WOULD YOU PLEASE OUTLINE YOUR EDUCATIONAL AND**  
17       **PROFESSIONAL BACKGROUND?**

18   A.   I have a B.S. degree in Accounting and a M.B.A. from the University of South Dakota. I  
19       am a Certified Public Accountant (South Dakota). I have a law degree also from the  
20       University of South Dakota.

21       I have been employed by Black Hills Corporation since 2004, working in various  
22       positions within the legal, regulatory and resource planning areas. Prior to joining Black

1 Hills Corporation, I worked in the banking industry and in the private practice of law,  
2 where I focused on business and financial transactions.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to provide support for the Application for a Certificate of  
5 Public Convenience and Necessity by summarizing the ability of Cheyenne Light and  
6 Black Hills Power to finance the proposed combustion turbine and combined cycle  
7 generation facility ("Facility"), describing the financial condition of Cheyenne Light and  
8 Black Hills Power, and how Cheyenne Light and Black Hills Power intend to finance the  
9 Facility and to estimate the cost of financing.

10 **II. MANNER BY WHICH THE PROPOSED**

11 **CONSTRUCTION WILL BE FINANCED (Section 204(f))**

12 **Q. PLEASE GENERALLY DESCRIBE THE MANNER BY WHICH THE**  
13 **PROPOSED CONSTRUCTION WILL BE FINANCED.**

14 A. Since cash on hand and expected cash flows from operations of Cheyenne Light and  
15 Black Hills Power during the construction period are not sufficient to cover the project  
16 construction costs, Cheyenne Light and Black Hills Power will need to finance a portion  
17 of the construction costs. It is anticipated that the construction costs regarding the  
18 Facility will be financed in a manner similar to other major projects through the use of  
19 internally generated funds, and short-term borrowings from the Black Hills Corporation  
20 utility money pool.

**III. STATE the FINANCIAL CONDITION OF THE  
APPLICANTS (Section 204(g))**

**Q. PLEASE STATE THE FINANCIAL CONDITION OF CHEYENNE LIGHT.**

A. The financial integrity of Cheyenne Light is sound. The goal of Cheyenne Light is to maintain and, if possible, improve its credit metrics. While Cheyenne Light does not have a credit rating, it has access to capital through Black Hills Corporation, its parent company, and through the issuance of first mortgage bonds.

**Q. PLEASE STATE THE FINANCIAL CONDITION OF BLACK HILLS POWER.**

A. The financial integrity of Black Hills Power is sound. The goal of Black Hills Power is to maintain and, if possible, improve its credit metrics. Black Hills Power has a credit rating. As of October 25, 2011, Black Hills Power's senior secured debt is respectively rated A3 by Moody's, BBB+ by S&P, and A- by Fitch. Each credit rating agency rates Black Hills Power with a "stable" outlook. Black Hills Power also has access to capital through Black Hills Corporation, its parent company, and through the issuance of first mortgage bonds.

**Q. PLEASE EXPLAIN THE FINANCE PHILOSOPHY OF CHEYENNE LIGHT  
AND BLACK HILLS POWER.**

A. The finance philosophy of Cheyenne Light and Black Hills Power is the same philosophy established by Black Hills Corporation. That finance philosophy is that Cheyenne Light and Black Hills Power must maintain financial integrity and their ability to access capital as needed at a reasonable cost. Financial integrity is critical to the ability of Cheyenne Light and Black Hills Power to satisfy its obligation to supply reliable and economic electric services. Both Cheyenne Light and Black Hills Power define financial integrity

1 as the financial stability necessary to weather the peaks and valleys of business cycles,  
2 volatility in financial markets and interest rates, and unanticipated changes in operational  
3 requirements, all of which may strain an organization's ability to finance expenditures  
4 and provide quality service. A strong financial position provides the financial flexibility  
5 necessary to meet the ongoing demand for utility services. Cheyenne Light and Black  
6 Hills Power are conservative in their financial philosophy and only take on risk where  
7 prudent. Even with a conservative corporate finance philosophy, no corporation is  
8 insulated from market forces, credit crunches, and other financing difficulties that cannot  
9 be foreseen or avoided. In those situations, Cheyenne Light and Black Hills Power  
10 follow the guidelines of prudence and reasonableness in evaluating its credit and  
11 financing options.

12 **Q. PLEASE DESCRIBE THE FINANCIAL CONDITION OF CHEYENNE LIGHT.**

13 A. As indicated above, Cheyenne Light is a wholly-owned subsidiary of Black Hills  
14 Corporation. As of December 31, 2010, Cheyenne Light had approximately \$319.3  
15 Million of Net Utility Plant, \$5 Million (including to Associated Companies) of Notes  
16 Payable, \$127 Million of long-term debt, and \$175.8 Million of equity. Its debt to  
17 capitalization ratio at that date was 41.9%.

18 Attached hereto as Exhibit BGI-1 are portions of the 2010 Annual FERC Form 1  
19 (Comparative Balance Sheet , Statement of Cash Flows, Statement of Income and Notes  
20 to Financial Statements) for Cheyenne Light.

1 **Q. PLEASE DESCRIBE THE FINANCIAL CONDITION OF BLACK HILLS**  
2 **POWER.**

3 A. As indicated above, Black Hills Power is a wholly-owned subsidiary of Black Hills  
4 Corporation. As of December 31, 2010, Black Hills Power had approximately \$642  
5 Million of Net Utility Plant, \$277 Million of long-term debt, and \$309 Million of equity.  
6 Its debt to capitalization ratio at that date was 47.3%.

7 Attached hereto as Exhibit BGI-2 are portions of the 2010 Annual FERC Form 1  
8 (Comparative Balance Sheet , Statement of Cash Flows, Statement of Income and Notes  
9 to Financial Statements) for Black Hills Power.

10 **IV. FINANCING THE PROJECT (Section 205(f))**

11 **Q. WHAT LONG TERM FUNDING ALTERNATIVES ARE AVAILABLE TO**  
12 **CHEYENNE LIGHT AND BLACK HILLS POWER TO FINANCE THE COST**  
13 **OF THE FACILITY?**

14 A. Cheyenne Light has access to capital through the issuance of first mortgage bonds.  
15 Likewise, Black Hills Power has access to capital through the issuance of mortgage  
16 bonds. In addition, Cheyenne Light and Black Hills Power have long term financing  
17 available through Black Hills Corporation. Black Hills Corporation's credit rating is  
18 "investment grade."

19 **Q. HOW DO CHEYENNE LIGHT AND BLACK HILLS POWER PLAN TO**  
20 **FINANCE THE NEW GENERATION?**

21 A. Cheyenne Light and Black Hills Power will review the financing alternatives during the  
22 construction process by looking at pricing and other factors. The type and timing  
23 regarding the financing for this Facility cannot be determined at this time but will depend

1 on then current financial market conditions. It is expected that permanent long-term  
2 financing will be through the assignment of Black Hills Corporation debt, issuance of  
3 mortgage bonds by Cheyenne Light and/or Black Hills Power, and/or equity invested by  
4 Black Hills Corporation.

5 **Q. WHAT IS THE COST OF DEBT FOR CHEYENNE LIGHT?**

6 A. In the current interest rate environment, it is expected that the projected cost of debt for  
7 Cheyenne Light will be in the neighborhood of 6.25%. The actual cost of financing will  
8 depend upon market conditions when the project is financed.

9 **Q. IN YOUR OPINION AS TREASURER, DOES CHEYENNE LIGHT HAVE THE**  
10 **ABILITY TO FINANCE THE CONSTRUCTION OF THE FACILITY?**

11 A. Given the need for the Facility, the financial condition of Cheyenne Light, the financing  
12 alternatives identified, the approval of a CPCN by this Commission, and the support of  
13 Black Hills Corporation, it is my opinion that Cheyenne Light does have the ability to  
14 obtain the financing to fund the construction costs of the Facility, and to obtain long-term  
15 financing upon completion of construction of the Facility.

16 **Q. WHAT IS THE COST OF DEBT FOR BLACK HILLS POWER?**

17 A. In the current interest rate environment, it is expected that the projected cost of debt for  
18 Black Hills Power will be in the neighborhood of 6.25%. The actual cost of financing  
19 will depend upon market conditions when the project is financed.

20 **Q. IN YOUR OPINION AS TREASURER, DOES BLACK HILLS POWER HAVE**  
21 **THE ABILITY TO FINANCE THE CONSTRUCTION OF THE FACILITY?**

22 A. Given the need for the Facility, the financial condition of Black Hills Power, the financing  
23 alternatives identified, the approval of a CPCN by this Commission, and the support of



1           Black Hills Corporation, it is my opinion that Black Hills Power does have the ability to  
2           obtain the financing to fund the construction costs of the Facility, and to obtain long-term  
3           financing upon completion of construction of the Facility.

4   **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

5   **A.     Yes.**